

Access to Microfinance & Improved Implementation of Policy Reform (AMIR Program)

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INDIVIDUAL LOAN POLICY PROCEDURE DEVELOPMENT

Final Report

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TABLE OF CONTENTS

1) Executive Summary	2
2) Acronyms used in this document	4
3) Introduction and Scope of Work	5
4) The MFW's experience with the two Individual Loan Products	6
5) Review of the current Individual Loan Products design	8
6) The others loan products (GGL and Seasonal loans)	10
7) The fieldworkers. Skills and believes. Incentives Schemes	12
8) The current approval scheme. Credit Committee.	14
9) Proposed new design of the Individual Loan Product	15
10) Proposed changes in the others loan products	17
11) Proposed changes in the fieldworkers Incentive Schemes	18
12) Proposed changes in the approval scheme.	19
13) The risk of the proposed changes.	21
14) Projected training requirements for the fieldworkers	22
 Appendix I	
Individuals Met During the Assignment	
 Appendix II	
Documents Read for the Assignment	
 Appendix III	
Proposal of Individual Loan Product Policies. As a Chapter of MFW Operations Manual	

1. EXECUTIVE SUMMARY

In compliance with the Scope of Work (SOW) the consultant invested 10 workdays in Jordan, reviewing Microfund for Women (MFW) group and individual lending policies, its Operational Manual, procedures and practices in the field-work.

Summarized below are the main conclusions and recommendations for the Individual Loan Product (ILP)

- (i) MFW must increase the retention of creditworthy clients, who will progress to increasingly larger loans, both within the Group Guarantee Loan and the Individual Loan Product.
- (ii) To reach that goal, it has to offer an exciting product, focused in providing added value and satisfaction for the best GGL clients. This graduation has to be natural when the relationship MFW-client is a win-to-win alliance.
- (iii) Building a "friendly bridge" between the GGL and ILP is the key to this process, based in simplicity, without big changes in the connection with the MFW fieldworkers. Starting for the GGL 3rd cycle clients and in 500 JD level.
- (iv) Simplicity is also the key word in the redesign of the unique ILP, making it flexible, more attractive, and with deeper analysis related with the level of risk MFW is managing. The Individual Capital Investment loan product must disappear because is not connected with the reality of MFW clients.
- (v) The FYE 2001 goal has to be to include at least 10 % of the current clients in ILP, mostly creditworthy GGL members may graduate to individual loan product. That objective could increase the annual productivity of the field-staff by more than 8 %.
- (vi) This objective must have a clear connection with the Credit Agents and Area Supervisors incentive scheme. It is convenient to align them behind their productivity (quantitative and qualitative) in a similar incentive scheme, sharing the results of the ILP portfolio.
- (vii) The interest rate of ILP must be in declining proportion to longer maturity's, to be more useful to finance the clients growth, specially when they took larger loans. Looking to a more competitive environment, the 2.5% commission has to be replaced for a fixed amount (for instance 10 JD), not related with the amount of the credit. Today the 2.5 % fee is rejected by a big number of clients.

- (viii) The Credit Committee integration will be based in different levels of approval, related with the amount of the ILP requested, making differences among the home based or business established clients.
- (ix) The mix among the ILP and the Seasonal loans could be an excellent financial support for the best clients, banking either working capital as punctually liquidity needs. They could married the financial flows of clients with the loans of the MFW "line of credit".
- (x) The Credit Committee analysis criteria, for the first level of approval, is going to be based in the client's character and the GGL performing record she had. The second level of approval must consider the client's cash-flow, and obviously in the third level it is included.
- (xi) The clients are going to be managed by a selected team (3 to 4 members) of Area Supervisors, who makes her recommendation to the Credit Committee, but the clients are still dealing with the Credit Agent of each MFW branch, so they are going to suggest the Seasonal loans for the ILP clients, in accordance with the Area Supervisor that manages that client.
- (xii) The issue of the guarantor would include some fiduciary guarantee (affecting the client's fixed assets, if it exist), guarantors with fixed salary (even relatives) and a formula for the refugee camps, made by GGL client's character, her monthly record payments and some fiduciary guarantee.

2. ACRONYMS USED IN THIS DOCUMENT

AMIR	Access to Microfinance and Improved Implementation of Policy Reform
AS	Area Supervisors
BP	Business Plan
CA	Credit Agents
EBC	Established business clients
FTE	Full time employee
FY	Financial year (October 1 to September 30)
FYE	Financial year end
GDP	Gross Domestic Product
GGL	Group Guaranteed Loan
GM	General Manager
HBC	Home based clients
ILP	Individual Loan Product
JD	Jordanian Dinar
JWDS	Jordanian Women Development Society
MFI	Microfinance Institution
MFW	Microfund for Women
NGO	Non Governmental Organization
SC	Save the Children
SOW	Scope of Work

US\$ United States Dollars

3. INTRODUCTION AND SCOPE OF WORK

3.1. The following report contains comments and recommendations arising out of the November/December 2000, 14 days LOE trip to visit MFW in Jordan, under the contract with Chemonics International Inc. The objective of this consultancy is to review current individual lending policies and procedures at MFW, make recommendations for modifications and draft an individual loan policy and procedure manual.

Also the focus of the visit is to re-design the ILP and to align it in the right strategic direction, as part of the Business Planning process in which it is inserted.

The SOW given by Chemonics was as follows:

- Review MFW's group lending policy and procedure manual.
- Review any pertinent material on hand regarding the individual lending procedure.
- Review the training delivered by Kholoud Khaldi.
- Review MFW's last quarterly report.
- Interview MFW's management, Area Supervisors, Field Officers and clients.
- Interview USAID and AMIR representatives.

3.2. This report consists of an executive summary, a detailed report and a draft of individual loan policy and procedure manual (Appendix III). It briefly describes the MFW's experience and performance to date with the two individual loans started 18 months ago.

The information and comments received by the consultant in MFW were very useful for him, demonstrated a high level of confidence in AMIR and its technical assistance. MFW is in the process of reforming its structure, to assure its leadership in the Jordanian microfinance industry, but provided all its thoughts and innovations to the consultant, in a test of confidence that is necessary to mentioned.

The consultant also wants to thanks the friendly environment that MFW and AMIR provided him to work with; that advantage allow the best way to invest his time focusing in the objective of this consultancy.

4. THE MFW'S EXPERIENCE WITH THE TWO INDIVIDUAL LOAN PRODUCTS

4.1. The ILP according the Operational Manual of February 1999

In March 1999 the former JWDS decided to offer a new loan product for its best clients: an Individual Loan "which will be based on best microfinance practices". Clients would be eligible to apply to this ILP once they have completed their ninth cycle under the GGLS methodology. Their long standing record with the institution as well as their history and discipline, which they have acquired over the years, would provide a strong base for their eligibility.

The new product has to be tested in two Amman areas, over a 12 month period before it is expanded into two additional areas. This would ensure effective oversight and control by staff who are properly trained in administering this particular product. Throughout the pilot phase, the same staff delivering the GGLS program would also deliver this new product. In March 2000 the pilot phase would start and would target 40 clients in 2 areas. After the final review of the pilot areas and the program design, the pilot program would expand to 2 more areas and will serve 74 clients by December 2001. At that stage, JWDS hopes to expand the product nationwide.

4.2 The practical experience in the last 18 months

In April 1999 a consultancy of the Institute for Politics in Microfinance (IPM) strongly suggested to start with a more aggressive annual pilot program of development a new ILP. The idea was to increase the retention of the creditworthy clients, that stopped her level of credits in the GGLS cycles, or deserted like JWDS clients.

In September 1999 the MFI start offering two new loan products: a) the Individual Working Capital Loan, and b) the Individual Capital Investment Loan.

The product was managed only by the AS, without including an special incentive scheme related with it (both AS and CA) and was offered in different branches, to the biggest clients. The results were poor, so the decision was to leave the products to be manage by all the fieldworkers and give a JD5 bonus to the CA when they "graduate" a client to the ILPs.

In the MFW last Business Plan, at the end of 1999, the forecast for FY 2000 of ILP for number of working capital loans disbursed was 413 and the value of loans disbursed was JD220.400. To date, the result was 66 loans disbursed (16 % of forecast) and a value of JD48.600 (22 % of forecast).

Only one ILP for Capital Investment have been extended in this year; this clearly indicates that there is a little genuine demand for these kind of loan activities.

4.3. ILP disbursed during the past year, from September 1, 99 - September 30, 00

- a. Number of ILP disbursed: 67 a/total active clients = 1,7 %
b. Number of repeat loans within the period: 6
c. Number of finished loan within the period: 15 b/c = 40 %
- 48 % of the ILP disbursed were between JD500 and JD600.
 - 73 % of the ILP disbursed were up to JD800; the other 27 % ILP were > JD1.000 and only 4 % were > JD1.500 (3 cases)
 - The average of the ILP clients were in the GGL 5th cycle (more than 2 years with MFW financial assistance).

Main ILP client's activities:

Mini-markets took the lead with 19 loans (30 %), followed by trade of new clothes with a total of 11 loans (17 %). The remaining loans were divided among many types of activities, including dairy products, sewing and embroidery (total of 8 loans; 12 %) and general trade activities.

Portfolio's Quality:

On time repayment was 99,9 % throughout the period, with one incident due to inability to reach the bank on time resulting in a late repayment. Portfolio at risk maintained an average of zero percent throughout the pilot period.

4.4. Training of the fieldworkers related with the ILP

An intensive training workshop of 3 days was conducted in October 1999 for 22 CA and AS; it covered the theory and the tools needed for analysis, followed by field visits to implements material covered and practice the tools that were introduced (application form and the cash-flow chart).

From April to July 2000, 11 CA and AS were enrolled in the Basic Microfinance Training program at the Institute of Banking Studies, which has a section of individual lending and the tools needed for staff to process applications for potential ILP clients.

In addition, 3 AS attended the basic course at Boulder, USA, in July 2000, which also touched on methods for evaluating loans. Coaching and supervision was provided from management to AS on an informal level throughout the last year.

4.5. Database for the ILP

A separate database for the tracking of the ILP was created by MFW's specialist to provide it with a system to monitor disbursements and repayments from HO. It also provides the Finance Department with a system of reconciliation and for cross checking deposits and withdrawals in a timely manner. MFW's Operational Manager thinks that the system can still be developed further, but is adequate for the initial phase of implementation.

5. REVIEW OF THE CURRENT INDIVIDUAL LOAN PRODUCTS DESIGN

5.1. Individual Loans currently offered by MFW to its clients are divided in two different products, with flexibility offered within the indicated range:

- Individual working capital loan that ranges from JD500 to JD1.500.
- Individual capital investment loan that ranges from JD1.501 to JD2.500.

The term for these individual loans extends from a minimum of 6 months to a maximum of 15 months. For working capital its is limited to a maximum of 12 months and for capital investment it has been extended to a maximum of 15 months, taking into consideration the size of the monthly repayments with the increasing loan amounts, as well as the type of investment.

Both loans are charged 2 % flat per month, depending on the term of the loan; in addition, an application fee is charged at 2,5 % from the approved loan amount, up front is deducted from the disbursement amount.

ILP are offered to existing MFW clients who have successfully completed 3 consecutive GGL cycles; initially this is used as a screening tool of potential clients for the following reasons:

1. Historical records of repayment patterns
2. Character check through working with the client over a period of 15 months.
3. Loan management by the client starting at a smaller scale.
4. Evaluation of project growth during the period.

In September 2000, and in response to feedback from the field, the qualification regarding the number of GGL successfully closed by the potential individual loan recipients was decreased to 2 instead of 3 GGL cycles.

5.2. Weaknesses observed during the piloting phase

Many weaknesses were observed, both from the client's perspective as well as from the fieldworkers perspective.

From the clients:

- **Lack of guarantor.** Especially in the HBC that live in refugee camps; usually they cannot provide a person who has a monthly salary covering the monthly repayment amount, and who is ready to co-sign the contract and the promissory note with the client.
- **High monthly repayment amount.** Especially for the JD500 to JD600 loan amount. Normally, clients applying for an ILP have just completed the JD250 or JD350 cycle, which entails a total monthly repayment of under JD56. The increase of the monthly repayment to JD94 is perceived as a big jump for the clients.
- **Slow delivery for the first ILP.** Related with the cash-flow exercise, the Credit

Committee approval (amounts modifications were usual), etc.

- **The commission fee of 2,5 %** irritated the best clients, doesn't understand why they have to pay it, when the GGL product doesn't charge it.
- **Complains about the possibility to cancel in advance the ILP.** Some of the best clients need more flexibility in their debts, complained about cancel in advance it (the term is longer and the financial cost is higher).

From the staff:

Due to the novelty of the ILP application procedure, which entails financial analysis, fieldworkers have shied away from following up on individual clients and at times have suggested to them that they should stay on with their Groups, especially if they have reached the higher cycles, in order to avoid completing the required procedure.

These are some of the constraints of the fieldworkers (AS and CA):

- Need for further training on financial tools required for ILP process.
- ILP application is confusing.
- Cash-flow analysis is time consuming.
- More flexibility, base more on the evaluation of the micro business and the client's character, rather than the two set ranges detailed above.
- Credibility of ILP Credit Committee, due to lack of clarity regarding the standards used in approving/rejecting loan applications.
- Lack of initial understanding (by the CA) of incentive scheme pertaining to ILP disbursements.

5.3. Comments about the results with ILP in the pilot period.

The low percentage of ILP over JD1.000 are indicative of the fact that **most of the applicants are HBC**, in addition to the weakness at times of providing a guarantor.

Another fact is that in 50 % of the times, the amount disbursed is not a reflection of the client's request, but rather the decision of the staff and Credit Committee to approve a lower amount, based on their evaluation of the client's ability to repay the installments without defaulting.

All of the ILP disbursed over JD1.000 were used for working capital purposes, with the exception of one ILP of JD2.000, used partially to acquire a store and the remaining amount used for increasing the level of inventory stocked in the acquired store.

The poor distribution of ILP over the pilot period has been indicative of the weaknesses outlined above, both from the clients and as well from the ability of MFW's fieldworkers to delivery ILP in a timely manner, assuring quality through subjectively selecting their star clients.

6. THE OTHERS LOAN PRODUCTS (GGL AND SEASONAL LOANS)

6.1. The GGL product

This product mainly utilizes the solidarity group lending methodology, a "classic" in the microfinance industry all around the world. The groups are formed by individual borrowers, who jointly and severally guarantee the loan of the group.

In MFW, the GGL product is the "son" of the former GGLS (S for savings) that worked JWDS for more than 3 years; it was originally provided by SC to its Middle East affiliates in Lebanon, Jordan, West Bank & Gaza and Egypt, all of the MFI's start-up in 1996/7.

Originally designed for 10 members, 8 fixed cycles and very low amounts in each cycle (especially in the first), turned to 8 members in the 1st cycle, permitted to fall to 7 members in the 2nd cycle and 6 members in the 3rd and subsequent cycles.

Also turned to increase the amounts of the 1st and subsequent cycles, to make it more appealing to the market place, in a more competitive environment. This "opened the door" to potential clients with established micro business, not only for the HBC and start-ups clients that were the only base of clients of JWDS in 1998.

MFW charges a 2 % flat per month, so due to the maturity of the cycles, the first 2 cycles (22 weeks = 5 months) are a little more expensive than the others (28 weeks = 6 months), the difference of 5 to 6 % in the effective annual interest rate (48 % in the 1st cycle and 42 % in the 4th) doesn't affect the relationship with the clients.

To former JWDS and current MFW, the GGL was the main lending product, and currently represents the 95 % of the outstanding loan portfolio. Although there is a social resistance to the concept of group lending and the over-rigidity of the original GGLS design has deterred more advanced micro entrepreneurs from joining the program, this product permitted MFW to achieve economies of scale and an excellent quality of its loan portfolio, acting as a credit quality control tool.

The changes MFW did over the last 24 months in the GGLS original design, appear to have created some confusion in the mind of the CA staff, about the product and the new structure of loan products (GGL, the two ILP, Seasonal). Related with that issue, MFW has lost a little of its competitive level, regarding some of the competitors are offering individual loan products immediately.

In the last three months MFW took the decision of putting out of the groups the direct relatives, to avoid the risk of lending twice or triple to the same family, always related with the same micro business. This decision decreased the amount of active clients in more than a thousand; that percentage indicates that the former GGLS product invited to build groups with relatives (or "fillers") to make up the required number of members, and that fillers often had dubious credit quality and held back the group from progressing to larger loans.

While the GGL loan sizes per cycle are rigid and concentrate on the needs of those at the lower level of the economic scale (HBC, that are no less than 80 % of total active clients), the potential clients with more prosperous businesses either are discouraged from joining the GGL product, or are waiting for more than a year to access to the level of credit they are looking for (with ILP, if it works...)

Finally, a weakness of the GGL is the lengthy delivery time it takes; to be more competitive, MFW has to reduce their delivery in the first loan, probably the reduction of the members group size can strongly cooperate in this issue.

6.2. The Seasonal loan product

This product was introduced on a trial basis in November 1999, originally designed as a Ramadan loan product; due to its success, however, it also has been extended during the Adha Feast as well as the Back to School Loans, started on August 2000, offered to active MFW's clients who normally trade in stationary, wholesale sewing and small vending carts selling sandwiches and snacks for students in schools.

These "extra working capital" loans were strongly required by near the 20 % of the active clients, so this auxiliary loan product (approved clients may have two loans outstanding simultaneously) and the product became to be very popular among the best clients. The projected forecast for FY 2000 was heavily oversubscribed.

The product is offered in a range of JD100 to JD250, with a maturity of two months, repayable in two equal monthly installments; the pricing is 3 % per month, flat, plus a fee of JD1 per loan. It is lent to members within their existing groups, of which three must wish to borrow; ILP clients also can apply to the Seasonal loan.

Although the loan repayment rate has been 100 %, complaints were made about the loan repayment timetable; this was subsequently altered so that it now allows for 3 repayment installments instead of two.

The Seasonal loan is a strong tool to increase client's satisfaction, because its delivery is fast and with a high level of opportunity. These two factors are the key to provide financial services with a high quality level to the micro entrepreneurs, being a powerful tool to make good business to them.

The mix of GGL or ILP with Seasonal loans could provide very good financial service if these three products are based in fast delivery and opportunity related with the clients business.

7. THE FIELDWORKERS. SKILLS AND BELIEVES. INCENTIVE SCHEMES.

7.1. The team and how its was built.

Currently, MFW's team of fieldworkers are 22 CA and 7 AS; that team is led by Ms. Sahar Teiby, the Operational Manager, who is in charge since the beginning of 1999.

The majority of the AS and some of the CA began to work in JWDS when it was managed by SC, like an affiliate of its 4 members Middle East MFI Group, since 1996 until 1998. The SC's microcredit approach was based on a large capacity of recruiting clients (by promoters) and by building 10 members groups; that big group size and a bi-weekly meetings with the group members was the way they move to cover credit risks. Financial analysis of the microenterprises and economic information about their businesses were nil; access to credit and good relations with the clients was the bases for recovering the loans.

The result was a big number of new clients (related with promoters incentive scheme), a huge desertion of them, a big number of start-ups microenterprises, an important number (20 to 25 %) of relatives inside the same group, a high rate of arrears and write-offs (over 10 % annual) and, finally, a lack of internal control, that caused fraud cases in two branches.

Since 1998 many changes were introduced in the MFI and in the GGL methodology, to provide more flexibility to that product, but created some confusion in the mind of the CA and even in the AS level. Now they are recovering some basic information about the client's income statement (sales, costs, payments of debts, family's budget, profits), so they are beginning to understand the MFW's clients financial flows.

7.2 Skills and beliefs of the fieldworkers

The CA profile is based in social skills, some of them graduates or students of social sciences like sociology, anthropology, etc, and only a few have administration or economic skills. They have strong expertise in managing the relationship with HBC, most of them are habitants of the refugee camps; the MFW's CA are very "well known" in the HBC microentrepreneurs market, where they have a good "touch" with the client's families and their visits to the camps are always welcome.

These qualities are very important assets for MFW, its history as the pioneer in the Jordanian microfinance was based in that assets, but that profile shows some problems when the methodology changes and new skills are necessary to provide individual loans, without the guarantee of the solidarity group.

Basically, the resistance of changes is based in the difficulty to both, HBC and CA even some AS, in making realistic cash-flow analysis of the client's business. These microenterprises are simple in their business, but their financial flows are complicated, due the mixing of business with

the family's expenses (especially when the standard of life is very low, mostly in HBC). So the result is that the CAs do not strongly believe in the cash-flow they made with clients, and think that this exercise is time consuming, without added-value.

A year ago, the initial fear of losing their best clients to the CA designated to handle ILP, the lack of appropriate credit training for CA and even AS, were obstacles to the growth the portfolio of the new loan product. Now, facts shows that the CA's profile are very strong to be modified by training in financial issues, and it seems to be so expensive that doesn't make sense to keep on going the idea in a short term (MFW's market niche is mostly HBC and only 10 to 15% EBC).

Related with EBC, the last year experience showed that some of them requested an initial ILP of JD2000, bypassing the current first tier of ILP working capital. These clients have decided to join the GGL product in order to fulfill MFW's requirements, but not because they needed these small loans. The CAs and mostly ASs were experiencing problems dealing this so much as that, some of that applications have been delayed by the Credit Committee and created a bad image in the EBC related with the ILP quality.

7.3 The current incentive scheme for the CA and the AS

The CA incentive scheme is focused on simplicity and works good; the formula is comprised of two components:

- Amount disbursed per month (inclusive of all products)
- Average monthly portfolio at risk (PAR)

The first component pays incentive over 8.000 JD monthly disbursements, taking the GGL, the ILP and the seasonal loans. Obviously, the short term of the seasonal loans are very profitable for the CA in this kind of component and the ILP is the opposite case.

The results are excellent in the second component (portfolio's quality) with zero arrears, but not so good in the average amount disbursed component.

The current incentive scheme for the AS has been developed to measure the financial sustainability of each area of operation as a cost center, but it has a lack of simplicity and wasn't fully understood by the AS, so it didn't work. The incentives paid to the AS have been nil and the MFW's General Manager has decided to fully modify it.

8. THE CURRENT APPROVAL SCHEME. CREDIT COMMITTEE

8.1. How its works. The problems.

As was mentioned in this report, the current approval scheme is one of the reasons for the slow delivery for the first ILP to the creditworthy GGL clients. It is based on the work of the Credit Committee, integrated by the Operational Manager, the Financial Manager and the General Manager of MFW; the CA and AS have to submit to those persons the proposals of ILP, new or repeated (2nd ILP cycle or more).

The exercise of ILP application in the Credit Committee level is confusing and the delays are usually related with amounts modifications, though rejections are very few. The reasons for that unsuccessfully results are:

- The fieldworker's cash-flow analysis is very weak and shows unrealistic figures. They don't believe in this tool and their inexperience is a handicap.
- The criteria of the three members of the Committee are different, as different is their professional profile and credit experience. There is a lack of clarity regarding the standards used in approving/rejecting loan applications.
- Is not clear the weight of client's character and the performing payment record, against the financial analysis of the microbusiness, based in the cash-flow.

When the amounts disbursed are not a reflection of the client's request, because the Credit Committee approved a lower amount, the clients are displeased rather than happy for the MFW's credit. Is important to understand that they are the best GGL clients, with a very good performing record and their expectations are strong, according to the institutional "speech" of MFW.

All this clearly shows the urgency of review the ILP approval procedures in light of the experience over the last year.

9. PROPOSED NEW DESIGN OF THE INDIVIDUAL LOAN PRODUCT

9.1. The main idea

Simplicity is the key word, so it must be only one ILP, more flexible and attractive, and with deeper analysis related with the level of risk MFW is considering in each case.

The main idea is to build a "friendly bridge" among the GGL and the ILP, making simple the graduation of the creditworthy clients, providing them the best financial assistance, like a higher stage in the relationship with MFW. The concept is: MFW provide a "line of credit" to its best clients, based on good repayments and the information related to the business' growth.

Focus in client satisfaction, MFW must add more value through the ILP, the clients shall perceive a lower financial cost, in declining proportion to longer maturity of the ILP (inside the maximum term of 12 months). Also the approval scheme has to look accessible, based in the client's character and her good performing record with MFW.

9.2. The proposed changes in the ILP

The lower financial cost is also related to provide MFW a more competitive position, as many of its competitors are currently lending at lower interest rate than MFW.

This change will focus directly on the objective of a higher retention of the creditworthy clients, increasing the average loan size and a lower turn-over of its loan portfolio (two important tools to increase the fieldworker's productivity). The FYE 2001 objective has to include at least 10 % of the current clients in ILP, mostly of the considered creditworthy GGL members may graduate to ILP.

The ILP clients are going to be manage by a selected team of 3 to 4 AS, designed by the Operational Manager in accordance with the MFW's General Manager. The selection criteria must be based in the last year experience with the ILP.

The AS are going to work in a two-members-team with the CA that managed the relationship with the ILP client at the present time. The AS makes her recommendation to the Credit Committee, but the clients still dealing with the CA of each MFW branch, so they are going to suggest the Seasonal loans for the ILP clients, in accordance with the AS that manages that ILP client.

The mixture of ILP and Seasonal loans will provide regular financial assistance and loans directly related with specifics seasons of the year. The term of the first ILP is preferable to be managed among 6 to 9 months, even the monthly interest rate is higher, to lower the impact of change GGL to ILP; the AS must show to the ILP clients that the second ILP could be in longer terms, but with similar monthly installments.

The front fee 2.5 % commission has to be replaced for a fixed amount (for instance JD10) not related with the amount of the credit.

9.3. The proposed levels of ILP

The creditworthy clients, after successfully completing 2 GGL cycles, may access the first level of ILP; the proposed includes three levels, the applications for larger loans will be considered exceptional cases, treated like exceptions at the General Manager's desk.

The idea is to give different treatment to the HBC on one hand, and to the EBC on the other hand, using different levels of approval schemes in the Credit Committee and also different elements to be consider in the credit analysis (both detailed in chapter # 12)

The proposed levels are the following:

	LOAN SIZE	
LEVELS OF ILP	Home based clients	Established business clients
First level	JD 500 to JD 750	JD 600 to JD 1,000
Second level	JD 751 to JD 1,000	JD 1,001 to JD 1,500
Third level	JD 1,001 to JD 1,500	JD 1,501 to JD 2,500

9.4 The proposed interest rates and terms

As it was mentioned above, the clients shall perceive a lower financial cost, in declining proportion to longer maturity of the ILP, providing them an incentive to demand loans with longer terms, reducing the turnover of MFW's active loan portfolio.

A suggested scale of declining interest rate for the ILP is the following (for example).

Number of months	Total financial cost	Monthly financial cost
6 months	11 %	1.833%
8 months	14 %	1.75 %
10 months	17 %	1.70 %
12 months	20 %	1.666%

Despite these lower interest rates, the objective is to increase the loan portfolio, mixing ILP with Seasonal loans, achieving "lines of credit" with a good portfolio yield (by this mix of products).

Today MFW is under-using its financial capacity, making time deposits with interest rate that is five times lower than the current portfolio yield, so the increase of the ILP portfolio is going to make a strong contribution in the risk assets yield. Also, with this ILP pricing MFW is going to

be more competitive in the Jordanian microfinance market.

10. PROPOSED CHANGES IN THE OTHER LOAN PRODUCTS

10.1. Changes in the GGL product

The consultant fully agrees with Mr. Graham Perret's Final Report (BP of MFW), when mentioned that the GGL product will be adjusted to make the program more attractive to more prosperous microentrepreneurs.

So the GGL product will be adapted as follows:

- The parameters for determining the group size will be changed from the number of members to the loan size. The minimum group loan to be extended will be JD 1,200 (exceptions must be approved by the Operations Manager)
- The minimum number of borrowers within any group, regardless of the number of cycles will be 4 members.
- The maximum number within the group for any cycle will be 6 members
- The reduction in the graduation period for ILP will be from 3 cycles to 2, to increase the possibility to up-grade for the creditworthy clients.

10.2. Changes in the Seasonal loans product

If possible, the 3 Seasonal loans (Ramadan, Adha Feast and Back to School loan) could be increased to 4, adding a new Seasonal loan to cover all the year, to complement the financial assistance to the ILP clients, building a yearly "line of credit" for them, using both products simultaneously.

With the ILP, MFW seeks an appropriate banking of their creditworthy clients lowest level of business activity, and the Seasonal loans must finance the peaks of that business activity. Working like a team, the two products could provide a high level of client satisfaction, reaching MFW's objective and consolidating it like the best microfinance institution in Jordan.

In the way of thinking in a line of credit, the Seasonal loans has to have a direct relationship with the ILP, so it is fine to work in related amounts, for instance: Seasonal loans are maximum a 30 % of the ILP (or 40 %). The relation must be in terms of making a "Qualification" of the ILP clients; so "qualified" a ILP client must consider the demands of that client in the Seasonal products, to evaluate the entire line of credit and before the Credit Committee decision, make a careful credit review.

11. PROPOSED CHANGES IN THE FIELDWORKERS INCENTIVE SCHEMES

11.1. Incentive scheme for the CA

The main emphasis must be placed on increasing the productivity of the CA, both in number of clients per CA and in average loan size per client.

Focused on simplicity and full understanding by the CA, the current incentive scheme needs changes only in the first component (Amount Disbursed), replacing by a monthly Average Active Loan Portfolio (AALP) by CA.

Measuring by the average adds the factor of "time", so it privileges the longer maturity of the ILP against the shorter terms of the GGL and Seasonal loans. Considering the MFW's active loan portfolio level in December 2000, the minimum bonus should be over JD 20,000 AALP by CA.

The new proposed ILP scheme gives the opportunity for CA to retain their star clients, including the ILP incentives. So the current graduation bonus would be quit for the CA, as the ILP adds in their new bonus system.

11.2. Incentive scheme for the AS

Very complicated and without good comprehension by the AS, the current AS's incentive scheme must be fully replace by another, focused in simplicity and with real objectives to increase the AS's productivity.

The suggestion is work a similar scheme than the proposed CA's incentive scheme, based in the AALP criteria, to promote a higher average loan size and a larger number of clients by AS.

Some AS are going to manage ILP, but not all of them, so this new incentive scheme is going to privilege the 3 or 4 AS with ILP portfolio. They are taking more credit risk in their portfolios, so they could lose their bonus in the second component of the proposed incentive scheme, the Average monthly Portfolio at Risk.

12. PROPOSED CHANGES IN THE APPROVAL SCHEME (C.COMMITTEE)

12.1 The integration of the Credit Committee

The Credit Committee shall be integrate by 4 persons:

- The Area Supervisor that manage the relationship with the new ILP client.
- The Operations Supervisor, a new position included in the future organizational chart, leading the AS's team.
- The Operations Manager, the manager of the MFW's commercial area, Ms. S. Tieby.
- The General Manager of MFW, Mrs. Niveen Abboushi.

12.2 The Credit Committee chart

The suggested Credit Committee chart is as follows:

Level of the ILP	Members of the Credit Committee	Elements to be considered
First level	AS + Op. Manager + Op. Supervisor	Character/record + basic economic info
Second level	AS + Op. Manager + Op. Supervisor	Char./rec. + basic econ info + cash flow
Third level	AS + Op. Manager + Op. Supervisor + General Manager	Char./record + basic economic info + current cash flow

The basic assumptions for this proposed chart are:

- Today the arrears are zero, because the MFW's fieldworkers have a good credit criteria and a strong culture of collections, controlling the client's repayments.
- The current incentive scheme is effective in the issue of reaching very low levels of delinquency.
- The key issue in the strategy of MFW's Business Plan is to increase the productivity, even if it is related with a low and controlled level of arrears (under 4 %, for instance).

12.2 The creditworthy HBC without guarantor

For the best GGL clients that live in the refugee camps and have problems finding a guarantor with fixed salary, the suggestion is to try to avoid it, replacing by adding a fiduciary guarantee (more psychology than real).

This new element must be considered a part of a formula, integrated with the Character, the Performing record and the Fiduciary guarantee; if the first two elements are excellent, the Credit Committee could accept the Fiduciary guarantee instead the guarantor.

13. THE RISK OF THE PROPOSED CHANGES

The following risks related with the proposed changes have been identified:

- **Deterioration in the Loan Portfolio Quality.**

The mis-understanding of the new ILP criteria could result in excess growth, focused in bigger bonus for the CA and AS. The Credit Committee criteria, specially in the First Level of ILP, must be very strong and determined to work like a "ILP criteria training program" for the ASs that are going to manage the ILP clients.

This risk was analyzed in Mr. Perret's Final Report and his conclusion was: "MFW could sustain a moderate (under 5 % Loan Loss Reserve), but still unacceptable, deterioration in the quality of its loan portfolio, and still reach operational sustainability for FYE 2002."

- **Some troubles in the relationship among the CA and AS.**

The issue of making a two-members-teams among the CA and the 3 to 4 AS selected to manage ILP, could be not easy to manage. They must talk a lot about the MFW's creditworthy clients, about the possibility of accessing to ILP, about the amount of the first ILP they are going to proposed to the Credit Committee, etc.

If one of their ILP defaults, the CA bonus is going to crash (the big ILP amount impacts very deep in the CA's incentive scheme's second component) and would not be strange that the CA claimed for the AS's credit criteria related with that default.

- **Some overlapping in the relationship among the AS.**

Currently are 7 AS leading the 22 CA, but when only 3 or 4 of them manage the ILP of the creditworthy clients of the 22 CA, the others AS are going to look at their work with critical analysis.

The Operation Manager and the future Credit/Operation Supervisor must focus on this risk, to maintain unified the AS big team and the integration of the whole MFW's fieldworkers team.

- **Disorder in the central risk control.**

The concurrence of the ILP and the Seasonal loans could create some confusion in the central risk control.

To avoid this, the suggestion is to analyze the clients' risk in terms of a "Credit qualification", looking at both products working together and matching the higher level of credit with the higher level of client's business activity.

14. PROJECTED TRAINING REQUIREMENTS FOR THE FIELDWORKERS

14.1. The coaching as a key issue in the development of the ILP

The decision to establish a training unit under the new Human Resources Director, is a key issue to support the proposed ILP changes and to avoid the risks mentioned in the above chapter # 13.

The training officers must be very experienced ASs or persons with appropriate skills to coach the CAs in the field, showing them how to manage the relationship with the creditworthy clients, focusing on being more competitive in the EBC market, to increase the MFW's productivity, by increasing the average loan size and the number of clients per CA.

A complete coaching program shall be very useful to support the development of the ILP and another products (like insurance, for example) in the MFW's Business Plan. A new Research and Development Unit is going to work in this and the relationship with the training unit is fully necessary for its success .

14.2. The projected training requirements

In the CA's level, the training requirements identified have been the following:

- Credit and financial analysis skills, especially briefings for the ILP with the selected AS (this training must be leaded by the Operational Manager).
- Basic business math, to consolidate the basic economic information of the GGL creditworthy clients, preparing them for the ILP.
- Sales and marketing skills, to increase their productivity.

In the AS's level, the training requirements would be:

- Identifying marketing opportunities for the ILP and projected new products.
- Branch management training
- Study tours of other MFI's programs, specially those who work with ILP.
- MIS and internal control of credit risk.

APPENDIX I

INDIVIDUALS MET DURING THE ASSIGNMENT

Mrs. Niveen Abboushi Sharaf, General Manager, MFW

Ms. Sahr Teiby, Operations Manager, MFW

Mrs. Arije Al-Amad, Administration Manager, MFW

Mr. Basem Khanfar, Finance Manager, MFW

Mrs. Aroub Khayyat, Area Supervisor Amman, MFW

Ms. Dimma Bseiso, Internal Control Officer, MFW

Ms. Ammal Abdul Razeq, Area Supervisor, Irbid Branch, MFW

Mrs. Leila Shawabkeh, Area Supervisor, Madaba Branch, MFW

Mrs. Rudayna Ahmad, Area Supervisor, Wehdat Branch, MFW

Mrs. Amal Halabi, Area Supervisor, Baqa Branch, MFW

Ms. Dana. Aikhas, Area Supervisor, Russaifeh Branch, MFW

Mrs. Fatema Musleh and Yasmin Farraj, Credit Agents in Wehdat & Nazal

Nine clients of different Amman areas (Wehdat, Nusha and Russaifeh)

Four clients of Irbid Branch and four clients of Madaba Branch.

Mrs. Terri Kristalsky, SMI Deputy Component Leader, AMIR

Mr. James Whitaker, SMI Component Leader , AMIR

Mr. Jamil El Wheidi, SMI Microfinance Expert, AMIR

Mr. Graham Perrett, Consultant

Mrs. Rula N. Dababneh. Project Management Specialist - Micro Enterprise, USAID

APPENDIX II

DOCUMENTS READ AS PART OF THE ASSIGNMENT

Operations Manual, Jordanian Women's Development Society, February 1999

The review of the existing strategic and Business Plan of Microfund for Women, Graham Perrett, SMI, AMIR, 2000

Microfund for Women, Annualy Report, FY'00, (October 1999 - September 2000)

Outlook, Newsletters issued by Microfund for Women (Issues # 3, 4 and 5; February, May & August 2000)

Incentive schemes for Credit Agents and Area Supervisors, Microfund for Women, January 2000

Phase II Technical Assistance Report for JWDS, Juan Padilla, IPM - CGAP W. Bank, July 1998

Phase III Technical Assistance Report for JWDS, Juan Padilla, IPM - CGAP W. Bank, March 1999

Trip report for visits to Save the Children affiliates, Robert P. Christen, IPM - CGAP WB, September 1998

APPENDIX III

PROPOSAL OF INDIVIDUAL LOAN PRODUCT POLICIES **(As a chapter of MFW Operations Manual)**

Background:

Individual loan product (ILP) are reflective of successful repeat group guarantee loans (GGL) and satisfactory client services. Therefore ILP requests are one of the objectives that both Credit Agents (CA) and specific designated Area Supervisors (AS) should be investing their time in.

ILPs are processed upon the request of the creditworthy clients of the GGL members and are based on an evaluation by the specific designated Area Supervisor concerned.

General Guidelines:

- A request submitted by borrowers for a First Level ILP could have one or more of the creditworthy clients of a GGL, after the groups' successful completion of the 2nd loan cycle.
- MFW's Operations Manager will propose to MFW's General Manager the names of selected 3 or 4 Area Supervisors that could manage the relationship with the creditworthy clients, providing them financial assistance with the ILP. After the General Manager makes her decision (with or without changes), she has to formally communicate it to the whole institution.
- Operations Manager has to assign to each designated AS the portfolio of GGL clients they are potentially going to manage, and formally communicate it to the whole Operations staff.
- The ILP different levels of consideration and approval in the Credit Committee will be three, as follows:

	LOAN SIZE	LOAN SIZE
LEVELS OF ILP	Home based clients	Established business clients
First level	JD 500 to JD 750	JD 600 to JD 1,000
Second level	JD 751 to JD 1,000	JD 1,001 to JD 1,500
Third level	JD 1,001 to JD 1,500	JD 1,501 to JD 2,500

- The applications for larger loans will be considered exceptional cases, treated like exceptions at the General Manager's desk.

Preparation:

Two weeks before the end of each GGL second or more cycles, the CA will determine the creditworthy clients of the Group, and ask them if they want to apply for a first level ILP.

In case some of them were interested, the CA must quickly notice the designated AS and being processing a first level ILP immediately, in order to ensure timely disbursement of that new loan, provided that the last repayment records are excellent by MFW standards.

To ILP renewals, if the repayment record is excellent, one month before the end of the first level (or second) ILP the CA must ask the ILP client if she wants to apply for a new ILP. If yes, the client must say for what amount is going to be her application (the maximum will be the upgrade level ILP); the options are two:

- 1) Stay in the same level ILP, even with an increasingly ILP, or**
- 2) Jump to the upgrade level ILP.**

In both cases the CA must inform the situation to the designated AS, to evaluate the ILP client and make the application for the Credit Committee.

Evaluation:

Evaluation of creditworthy GGL clients is of utmost importance at this stage: they are leaving the Group (co-ordination, guarantee, pressure, etc.), to have a “face to face” relation with MFW. The documentation gathered throughout the GGL cycles and filed in the file at the Area Branch is critical and must be examined, especially by the AS.

Documents that need to be checked at this stage are the following:

- Group Evaluation Questionnaire (Group repayment records, investment of loan in the individual application)
- Repeat Loan Evaluation Questionnaire (solidarity of group member, positive impact on the borrower, adherence of the GGL client to MFW's conditions).
- Basic economic information about the creditworthy GGL client

For the creditworthy ILP clients that applies to the second and (later) for the third level ILP, the evaluation must include the cash-flow analysis of the microentrepreneur (microenterprise mixed with the family's expenses), to have an in-depth evaluation of her repayment capacity.

This analysis has to be done in the period (a month) before the current ILP is totally repaid, to replace in time the financial assistance for the ILP client.

Application:

All creditworthy clients wishing to apply for or renew their ILP must complete the necessary ILP Application Form (to be design by MFW Operations Area). Obviously, this Form has to have differences among the GGL clients application for first level ILP, ILP clients renewals in the same ILP level and ILP clients applying to upgrade ILP level, providing more financial information.

The AS must interview the ILP clients (new or old) in their microenterprises and make a complete report about them, case by case (even they are in the same GGL) including the cash-flow analysis when the first/second level ILP clients apply to the upgrade ILP level. That report has to be shown to the CA that manages the relationship with the client and she has to give her opinion about the AS's report (fully agree/ agree with more comments/ disagree with comments).

When the CA/AS's team complete this evaluation and application process (at least in 3 weeks), it submits the ILP Application Form to the Credit Committee.

Processing:

In summary, the following steps need to be completed:

1. AS submits ILP Application Form, the client's file with her report (signed by the author and the CA with her opinion) and the cash-flow analysis (for 2nd and 3rd level ILP, only), to the Credit Committee that corresponds (depends on different levels)
2. The Credit Committee evaluates the ILP Application Form, takes a decision about it and, if it is in fully accordance with the request, completes the ILP Application Loan Request Form and submits it to the MIS Area, to process it.
3. If the Credit Committee disagrees with the ILP request and refuses or modifies it, that decision has to be reported to the client, within 24 hours. If the client accepted MFW's decision, the ILP Application Loan Request Form has to be immediately (in the next 24 hours) submitted to the MIS Area, to process it.
4. MIS Area returns the application to the AS, with an ILP ID generated by the MIS, when the ILP is approved.

5. AS prepares and submits the check request to the Finance Department (in the next 24 hours), in order to have the check ready for disbursement the day after the ILP client paid the last instalment of her current loan (GGL or ILP). The CA is the person that gives the check to the ILP client; could be with the AS also.

Disbursement:

ILP disbursements for repeat ILP follows the same format as new ILP. The CA notifies the ILP client of the time and place of the ILP disbursement.